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**THE FINANCING OF IICA:
RECOMMENDATIONS FROM THE EXECUTIVE COMMITTEE ON
MEASURES FOR RESTRUCTURING THE INSTITUTE'S FINANCES**

Panama City, Panama

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I. BACKGROUND

1. The Convention on the Institute states that the organization's purposes are to encourage, promote and support the efforts of the Member States to achieve their agricultural development and rural welfare, and that its operations are to be financed with annual quotas contributed by the Member States, in accordance with the system for calculating quotas of the Organization of American States.
2. IICA's Medium Term Plan is the instrument that defines the Institute's medium-term strategy for supporting the efforts of the Member States to achieve progress and prosperity, through the modernization of the rural sector, the promotion of food security and the development of an agricultural sector that is competitive, technologically prepared, environmentally managed and socially equitable for the peoples of the Americas.
3. To better carry out its mission, the Institute is endeavoring to become an agency for development that promotes the sustainable development of agriculture, food security and prosperity in the rural communities of the Americas.
4. The Institute must deliver an array of cooperation services in areas that are of high priority to its Member States, meet the growing demand for its services and, at the same time, resolve crucial issues related to the financing of its rising operating and personnel costs, bearing in mind that its chief source of funds -the quota contributions from its Member States- has been frozen since 1995.
5. At its meeting in 2002, the Special Advisory Commission on Management Issues (SACMI) made a series of recommendations designed to strengthen the Institute financially and suggested that the Director General submit a proposal for the comprehensive restructuring of its finances over the medium term to the consideration of the Executive Committee in 2003.
6. The restructuring of the Institute's finances is a key issue for IICA's life and future, and therefore the Member States must take the crucial decisions needed to implement such a process, which involves changes in the technical, organizational, managerial and financial areas.
7. The purpose of this document is to propose some ideas for restructuring the Institute's finances with a view to ensuring its financial sustainability, in line with the objectives and strategic guidelines established by its governing bodies.

II. THE INSTITUTE'S FINANCIAL SITUATION

1. The Institute's Revenues

- a. The policy of zero nominal growth in quota contributions that has been applied means that the purchasing power of these funds has declined substantially, due to the recurring impact of several factors, including: (i) changes in the Consumer Price Index (CPI) and the Exchange Rate (ER) in the Member States, which have reduced the purchasing power of the Institute's revenues; and, (ii) higher operating costs, in terms of both staffing costs¹ and the rising prices of the goods and services that the Institute acquires for providing technical cooperation services to its Member States.
- b. To address this situation, the Institute has been implementing a policy to secure external resources in order to increase the coverage of its technical cooperation and generate additional resources (CATIs/INR and miscellaneous income). This policy has brought benefits both to the Member States and to IICA, but has also obliged the Institute to focus a large share of its capabilities on the administration of external resources. To some degree, the administration of these resources has compromised the Institute's approach, objectives and positioning as a leading institution in the field of agriculture and rural development.
- c. IICA has three sources of revenues: (i) the resources it receives from its Member States (quotas); (ii) miscellaneous resources generated by the sale of services, assets, interest earned or recovery of taxes; and (iii) income generated by charging for the indirect administrative and technical costs (CATIs/INR) incurred by externally funded projects. The following table shows IICA's revenues resources and the external funds executed in the 1995-2002 period.
- d. The Institute's Member State quotas are its principal source of revenues, the total of which has held steady at US\$27.2 million for the past nine years.

¹ The increased cost is due to the real increase in salaries and fringe benefits, and not to an increase in the number of employees, which has been relatively constant in the past few years.

- e. During the 1995-1998 period, CATI/INR revenues grew steadily, experiencing a growth rate of 74.5% and reaching the figure of US\$9.6 million in 1998. Between 1998 and 2002, however, the sums generated by CATIs/INR fell 32.5%, to US\$6.5 million in 2002. There were two reasons for this: (i) a decrease in the amount of external resources executed; and, ii) a drop in the average CATI/INR rate charged, from 7.48% in 1998 to 5.40% in 2002.

RESOURCES 1995 – 2002													
(in US\$ x 000)													
YEAR	QUOTAS				MISCELLANEOUS RECEIVED		CATIs GENERATED		TOTAL IICA		EXTERNAL EXECUTED		AVERAGE CATI/INR RATE
	APPROVED		RECEIVED										
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%	
1995	27,167.6		22,992.3		1,521.0		5,528.2		34,216.8		61,140.4		9.04%
1996	27,167.6	0.0%	32,947.7	43.3%	2,584.6	69.9%	6,267.4	13.4%	36,019.6	5.3%	66,145.1	8.2%	9.48%
1997	27,167.6	0.0%	26,952.6	-18.2%	3,280.7	26.9%	9,613.9	53.4%	40,062.2	11.2%	108,411.7	63.9%	8.87%
1998	27,167.6	0.0%	33,177.8	23.1%	2,983.0	-9.1%	9,645.9	0.3%	39,796.5	-0.7%	129,000.5	19.0%	7.48%
1999	27,167.6	0.0%	24,332.1	-26.7%	2,767.4	-7.2%	7,460.4	-22.7%	37,395.4	-6.0%	105,215.4	-18.4%	7.09%
2000	27,167.6	0.0%	21,727.9	-10.7%	1,991.6	-28.0%	6,929.0	-7.1%	36,088.2	-3.5%	106,691.1	1.4%	6.49%
2001	27,167.6	0.0%	29,187.0	34.3%	3,097.3	55.5%	7,443.8	7.4%	37,708.7	4.5%	136,092.6	27.6%	5.47%
2002	27,167.6	0.0%	26,271.1	-10.0%	2,624.2	-14.7%	6,508.8	-12.6%	36,318.6	-3.7%	120,613.2	-11.4%	5.40%

Note: % refers to the annual growth in income

- f. Miscellaneous income grew considerably between 1995 and 1997, from US\$1.5 to US\$3.3 million. However, in 1998 it also began to fall, except for in 2001. Overall, it fell by around 20% between 1997 and 2002.
- g. The Institute's total budget (quota, miscellaneous and CATI/INR resources) grew between 1995 and 1997 (by 17.1% in nominal terms), peaking at US\$40.1 million in 1997. The following year saw the start of a reversal of the trend, with income down 9.3% in nominal terms during the 1998-2002 period. Total income in 2002 was US\$36.3 million. In real terms, the reduction between 1998 and 2002 was 21.8%.
- h. The growth in CATIs/INR and miscellaneous income has partially offset the negative impact on the Institute's overall financial position of the freezing of the Member States' quota contributions. However, given the sharp negative growth in these two sources of funds in recent years, the Institute will have to depend less on these sources of income in the short term. This situation makes the financial outlook for the Institute even more problematical. The negative trend has resulted primarily from the pressures of the Member States and lending organizations to reduce the CATI/INR rates.

2. The Demands Being Made on the Institute and its Strategy for Growth

- a. The demands being made on the Institute have been increasing with regard to:
 - ◆ The opening of Offices in new member countries, that generate less income (quotas and others) than the costs required for the new Offices.
 - ◆ An increase in the number of thematic areas covered by IICA's technical cooperation.
- b. The Medium Term Plan establishes six strategic areas in which technical cooperation actions are concentrated, which obliges the Institute to distribute its human, natural and financial resources equitably among these six areas.
- c. There has been an increase in the fixed costs associated with IICA's structure of 35 Offices (including Spain) plus Headquarters. IICA currently has Offices and Representatives in 30 countries (the Eastern Caribbean States –ECS- have one Representative, who is stationed in St. Lucia and a Coordinator in each of the other five countries). The units at Headquarters include senior management, and the areas of technical cooperation, planning, monitoring and evaluation, and administration and finance.

III. THE IMPACT OF THE FINANCIAL SITUATION

The decline in resources available, in nominal and real terms, has impacted the Institute in a number of ways, including the following:

1. A reduction in the number of International Professional Personnel in the countries and at Headquarters, down from 132 in 1995 to 93 in 2003. As a result, IICA has had to make increasing use of local professionals, limiting mobility between countries, exposing the Institute to greater political risk and limiting the number of groups of professionals working together in centers of excellence. At the same time, national capabilities have been increasing and International Professionals are being called on to play a new role, serving more as “facilitators of development processes” than “specialists.”
2. A smaller critical mass in the strategic thematic areas. The six areas of cooperation are served by an average of 7 international professionals each, scattered throughout the hemisphere.
3. Spiraling operating costs (rent, communications, travel, equipment, maintenance, etc.) and shrinking revenues are chipping away at the Institute's operating capacity.
4. Growing dependence on projects funded with external resources from countries and international lending and cooperation agencies. Although the Institute endeavors to ensure that they fall within its strategic areas, the objectives, strategies and activities of these projects are pre-established. This means that:
 - a. Part of the Institute's technical and operating capacity is being used to implement externally funded projects.

- b. Projects are administered without IICA having technical responsibility for same; in some countries this has undermined the Institute's position as a technical cooperation agency.
5. Rising travel and per diem expenses and the decrease in the resources available for operations has limited the mobilization of the Institute's technical staff. This has obliged the Offices in the countries to become more self-sufficient, further undermining IICA's greatest advantage: its international nature, its capacity to transfer knowledge and its political independence.
6. The scant resources available for pre-investment activities limits the Institute's ability to participate in new development projects in the countries in such a way as to be able to promote the strategic guidelines defined by the countries at the outset of such initiatives.

IV. MEASURES FOR INITIATING THE RESTRUCTURING OF THE INSTITUTE'S FINANCES

The situation described above makes it necessary to take steps to restructure the Institute's finances. These measures should have an effect on the services to be provided, the revenues to be received, the organizational structure needed to provide such services, and operating costs.

1. The Cooperation Services Offered by the Institute

- a. IICA's mandate is to provide cooperation for the development of agriculture and rural well-being. As a modern organization endeavoring to transform itself into a development agency that promotes the sustainable development of agriculture, food security and prosperity in the rural communities of the Americas, it must respond to the demands of the Member States in a limited number of fields, offering technical excellence and operating efficiently.
- b. The purpose for transforming IICA into a development agency is to increase its capacity to respond efficiently and appropriately to the Member States' needs. The steady weakening of the Institute's financial position will have negative impact on its technical and operating capacity. This will require a rethinking of the kind of institution we want to have in the future, in accordance with the availability of resources.
- c. If one or more countries request that the Institute provide technical cooperation in other important subject areas not considered in the Institute's strategic areas, the cooperation should be financed entirely with special resources.

2. The Institute's Revenues

The Institute's financial strategy should be underpinned by the following: (i) the quota resources from the countries will finance the core management structure and technical cooperation for development; (ii) resources from development financing organizations channeled through the Institute, making IICA their principal technical arm in support of agriculture and rural life in the Americas; and, (iii) other countries and agencies are

incorporated as Associate members, and make a regular contribution of resources. The recommendations follow.

- a. For the Institute to maintain its status as an international public organization, its member countries must finance its basic personnel and operating structure. To this end, it is proposed that IICA:
 - ◆ Review the current percentage distribution of country contributions calculated in accordance with the criteria established by the Organization of American States (OAS). IICA should work with the OAS to propose an adjustment in the current quota scale.
 - ◆ Until the current OAS quota scale is modified, establish special additional quotas for countries that increase their percentage contributions.
 - ◆ Implement urgent measures to recover quota arrearages. A proposal on this matter is being submitted separately.
 - ◆ Continue to encourage the Member States to make special quota contributions, to help finance the baseline costs of the Offices, National Technical Cooperation Plans, and priority regional and hemispheric-level projects.
 - ◆ Approve a budget for special expenditures, financed by the General Subfund in the amount of US\$3 million, as an alternative to increasing Member State quotas. This budget would be funded by quota arrearages that are collected.
- b. Continue to encourage other countries to become Associate members of IICA, pursuant to the Institute's rules, which permit Permanent Observers, other countries and entities to contribute resources for the Institute's operations (with minimum criteria for contributions).
- c. As part of the efforts to transform IICA into a development organization, alliances should be promoted that make it possible to execute external resources at the national, regional and hemispheric levels, complementing the human and operating resources that IICA allocates to its strategic areas of action. This would mean:
 - ◆ Gradually ceasing to administer resources without having technical responsibility for the actions. This diverts the Institute's attention and places it in competition with the State apparatus. If the Member States decide that the Institute should participate in this sort of activity, a highly professional and self-financed, parallel administrative structure should be created.
 - ◆ Strengthen the Institute's administrative role as a means of contributing to the modernization and strengthening of the countries' institutions, so they can accomplish their objectives effectively.
 - ◆ Discourage the undertaking of cooperation actions that involve functions that should be performed by government institutions. The Institute's role should be to help strengthen government institutions.

- ◆ Ally itself with international financing organizations with a view to making IICA their principal technical arm for executing actions in the area of agriculture and rural life in the Americas, as an organization highly focused on issues of common interest in the hemisphere and with modern and efficient administrative systems.
 - ◆ Share the costs of premises and basic services in the countries and at Headquarters with other international organizations.
- d. Miscellaneous income from financial returns, the recovery of taxes and the sale of goods and services is a source that should be increased by taking the following steps:
- ◆ Establish a financial policy that optimizes the financial returns on idle resources, with an appropriate level of risk.
 - ◆ Promote the recovery of the cost of publications and technical cooperation services provided to the private sector.
 - ◆ Remove miscellaneous income from the Regular Fund and create a Miscellaneous Income Fund, so as to be able to transfer savings from one budgetary period to another. In this way, the Regular Fund would be composed exclusively of the Member States' quotas.
- e. Review the policy of recovering indirect costs incurred through the execution of external resources, which IICA calls Indirect Administrative and Technical Costs (CATIs) and the Institutional Net Rate (INR). This review should take the following into account:
- ◆ The direct costs involved in administering external resources should be covered entirely by the external source.
 - ◆ The indirect costs to the Institute should be recognized by the external source, as is the usual practice in agreements between cooperation agencies.
 - ◆ The Institute will apply a policy that stipulates that projects financed with external resources must cover 100% of their direct costs, and that a percentage rate will be applied to these direct costs for funding the Institute's indirect costs at the hemispheric, regional and national levels. The Institutional Net Rate (INR) will be applied, and the method for charging Indirect Administrative and Technical Costs (CATIs) will be abandoned.
 - ◆ CATI/INR resources will become part of the Institute's budget and be allocated with criteria similar to those used for quota resources; priority will be given to financing the complementary structures in the Offices that support the execution of external resources for development. This measure will be applied gradually, reducing the percentages of CATI/INR resources available to the Offices that generate them.
- f. Secure donations and special contributions from countries and national and international organizations, in order to create and operate an Endowment Fund for the Sustainable Development of Agriculture.

3. The Organizational Structure

- a. The aim should be to gradually institute a simple, highly trained management structure, with administrative and financial procedures that are transparent, efficient, straightforward and computerized, capable of providing information services and delivering inputs for generating and delivering the Institute's products for agricultural and rural development in the Member States. This entails:
 - ◆ Investing in management information systems.
 - ◆ Standardizing and simplifying administrative and financial processes, integrating them with those used for knowledge management.
 - ◆ Having fewer, but highly trained, staff.
 - ◆ Increasing central control.
- b. Review and adjust the current structure of Offices and Representatives in the countries, adopting a new organizational model that reduces the fixed costs of maintaining 35 Offices and a Headquarters facility. If it is decided that the current structure should be maintained, additional financing must be sought from the countries where the Offices are located (e.g., special contributions of financial resources or premises, personnel, communications, etc).
- c. Seek alliances with agencies of the inter-American system for sharing premises, operating facilities and costs.

4. Operating Costs

The following measures are suggested with regard to the Institute's investments and recurring costs:

- a. Invest in institutional information systems that facilitate the establishment of an inter-American system for the management of agricultural and rural knowledge and the implementation of transparent, flexible, expeditious and standardized ISO 9000 certified financial management procedures for easier centralized control and decentralized decision making. The aim would be to establish an approach to development cooperation based on new information and communication technologies, and to improve the Institute's ability to execute its own resources and those from external sources, thereby enhancing the Institute's reputation as a reliable agency for executing development resources.
- b. Establish a centralized system for purchases of fixed assets and international services (mail, plane tickets, hotels) to obtain better prices through volume and direct delivery by suppliers in the countries.
- c. Put into effect the status of Associate Professional Personnel, upon IABA approval, to attract highly skilled human talent and thus increase the Institute's technical capabilities. They would be involved in the execution of external resources attracted by the quality of these professionals and IICA's own capabilities. This measure should be accompanied by the appropriate legal

provisions, to ensure that no contractual financial commitments are created for the Institute.

- d. Establish alliances with institutions that have volunteer programs.
- e. Ask countries that have not done so to date to provide premises for IICA's Offices, with the following characteristics:
 - ◆ Ready to be used and no major investment required to refurbish them.
 - ◆ Located in areas that facilitate the Institute's work and the access of beneficiaries, partners, allies and their personnel.
 - ◆ Require low maintenance and operating costs. This means that IICA prefers small premises, and that incremental needs for space for executing externally funded projects will be met with temporary, additional offices.
- f. Continue with salary policies for local staff keyed to the labor markets of the countries and to results-based systems of incentives.
- g. Review the Institute's per diem policies, basing them on agreements with hotels in the countries or international hotel chains.
- h. Establish a policy whereby the direct transfer of IICA's financial resources to other institutions and cooperation bodies would gradually be eliminated. Instead, financial contributions would be redirected toward the design and implementation of joint programs and projects, and to strengthening IICA's participation in managing these funds.
- i. Use audiovisual media for some meetings, to reduce expenditures on official travel.
- j. Gradually make the Institute a paperless organization, making optimum use of electronic communications.

V. SUMMARY OF MEASURES FOR RESTRUCTURING THE INSTITUTE'S FINANCES

MEASURE		DECISION LEVEL	NEEDS STUDY
For immediate application			
A	Any topic other than those included in the priorities set out in the current MTP must be financed with special funds	Res. 365, XXII CE	No
B	Request special contributions from the countries for specific projects and to finance the actions of their respective Offices	Res. 365, XXII CE	No
C	Promote the inclusion of new Associate Members	Res. 312, IX IABA	No
D	Gradually abandon the practice of administering external resources without technical responsibility	DG	No
E	Share the cost of offices and basic services with other international organizations	DG	No
F	Mobilize external resources: a) the direct costs of externally-funded projects are financed by the external fund; b) externally-funded projects pay IICA for indirect costs (INR)	DG	No
G	CATIs/INR resources are assigned institutionally, in accordance with defined priorities	DG	No
H	Take steps to secure resources for establishing the Endowment Fund	Res. 299, IX IABA	No
I	Request countries that have not done so to provide physical installations for IICA Offices	Res. 255, VIII IABA	No
J	Centralize the procurement of fixed assets and international services	DG	No
K	Establish alliances with academic and research institutions that have volunteer programs.	DG	No
L	Review and adjust the per diem policy	DG	No
M	Move in the direction of becoming a paperless organization, optimizing to this end the use of electronic communications.	DG	No
N	Keep the duration of meetings to a minimum, eliminating field trips and programs for accompanying spouses.	DG	No
O	Consider the possibility of holding IABA meetings at Headquarters, or that the host country covers the extra costs generated by holding them away from Headquarters.	DG	No
For presentation to IICA's governing bodies without additional study			
P	Support from the governments to make IICA the principal technical executing arm of multilateral financing organizations	EC	No
Q	Redirect financial contributions to other institutions and cooperative programs toward the design and implementation of joint programs and projects, and strengthen the Institute's participation in managing said funds, without prejudice to the obligations already established in agreements in force.	EC	No
For presentation to IICA's governing bodies with additional study			
R	Review and adjustment of the current organizational structure with Offices and Representatives in the Member States	EC,IABA	Yes
S	Invest in information and communications systems	EC	No